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This Month's Authors

FRANCIS J. BRIDGES
A. R. MARSHALL
JAMES F. CRAWFORD
RODERICK F. O'CONNOR

The above-named contributors to the current symposium on the Kaiser Steel settlement were given wide latitude for their comments. Their various approaches to the significance of the Kaiser compromise reveal the breadth and comprehensiveness of their thinking.

Dr. Bridges is Professor of Management, School of Business Administration of Georgia State College of Business Administration; Dr. Marshall is Professor of Industrial Management, Georgia Institute of Technology; and Dr. Crawford is Associate Professor of Economics, School of Business Administration of Georgia State College of Business Administration.

ness Administration. Dr. O'Connor for some years has been in the field of psychological counseling to executives in industry. He is presently a psychological counselor to management, Atlanta, Ga.

WARREN A. WALKER

Last month's "Southeastern Corner" was devoted to **manufacturing** in the state of Alabama. This month Mr. Walker discusses Alabama's inquiry into factors that are involved in industry location—a subject of paramount interest to states and to communities in their efforts toward industrial progress.

Mr. Walker, a graduate in Economics from Georgia State College of Business Administration, has done field and staff work for manufacturers, wholesalers, retailers, banks, and savings and loan associations throughout the Southeast. He is currently a director of the Atlanta Foreign Trade Association.

A Symposium

Contributors:

Francis J. Bridges James F. Crawford
A. R. Marshall Roderick F. O'Connor

THE KAISER STEEL SETTLEMENT: Its Significance In The Present Steel Crisis

In brief, the Kaiser settlement provided no extraordinary concessions in wage and fringe benefits. Of significance, however, were the two committees formed: one, with the company and union represented, to review past practices as well as look at new changes involved with future automation as regards "work rules"; the second, a "long-range" committee, with representatives of company, union, and the public, which among other things will concern itself with the distribution of future productivity gains between management interests and labor.

It remains to be seen whether the settlement at Kaiser Steel will be precedent-forming in the current issue of work rules and the balance between management and labor rights.

In this symposium, four thoughtful contributors express their opinions of the Kaiser settlement in answer to the question:

"What do you think of the terms of the labor dispute settlement at Kaiser Steel?"

FRANCIS J. BRIDGES

While the steel industry is back to work during the so-called 80-day cooling off period, the major issues involved in the recent steel strike are far from settled. These issues always have been present; they are not new, nor are they likely to be settled with the eventual signing of a contract between the Steelworkers' Union and major steel-producing companies.

Two of the issues of major concern deal with (1) work-rule changes in the contracts and (2) wage and fringe-benefit changes. Of the two, the first is of greater significance currently. Major steel companies demand changes in work-rule provisions of their contracts to allow for technological innovations and methods changes which are expected to increase efficiency and lower costs. At the same time the union demands higher wages and fringe benefits, which the companies say they cannot afford to pay without the work-rule changes. The union is against any changes in work rules because they might lead to substantial layoffs and a weakening of their future bargaining position. Thus the impasse between steel companies and the steelworkers union!

The Kaiser Settlement

The only breakthrough of importance during the
January 1960

recent strike occurred when Kaiser Steel signed a separate agreement with the Steelworkers Union. While Kaiser Steel accounts for only a small per cent of total steel output, it is the major steel company in the western United States and is classed as a significant producer. Kaiser's settlement left work rules unchanged, pending further study by a management-union work rules committee composed of three local union representatives and three company representatives. This committee of six members will review automation and past practices and will have the power to resolve the issues that are raised. Another committee, composed of three persons from management, three persons from the union, and three from the public, will study problems resulting from automation, technological change, and local working conditions, and will deal with long-range plans for sharing the benefits of any productivity gains. This committee has advisory power to make recommendations to the company and union.

From Kaiser's standpoint, the settlement appears to have been made because of management's feeling that it did not want its employees working under an injunction with negotiations on aluminum contracts coming up shortly and because of its diversification of company products involving the use

of steel in many forms. Furthermore, the Kaiser Steel Company is relatively young with fewer incidents to mark the struggle for security and power between management and the union over the years. Its approach in making a settlement shows a careful weighing of the alternatives, which ended in favor of a settlement and back-to-work policy, rather than running a risk of troublesome and costly incidents during the next two years.

General Conclusions

Today's steel problem is expressed in many ways and by many acts, but underneath rumbles an old basic problem. Who is going to manage the steel industry? The union or the companies? This strike tends to be developed around the companies' feeling that there are certain managerial prerogatives which should be defended and cannot be traded. One senses that management's freedom is being challenged despite management's past willingness to grant wage increase after increase since World War II. Over decades, however, the steel industry has been one of organized labor's toughest foes. Today the major producers in the industry feel that no longer can they pass additional cost to consumers and still maintain satisfactory profits—thus no increase in wages or fringe items unless there is an additional increase in real productivity brought on by company-introduced work changes leading to greater efficiency and lower costs. The union is faced with the ever-present problem of building up greater internal and external security—continued evidence of such represented by the demands and answers to key issues introduced during recent negotiation sessions. For the first time in the steel industry, Kaiser's separate settlement gave the union a voice in saying how new equipment, methods, etc., should be used in new plants. This represents a vital breakthrough of one of management's traditional rights. Thus, while the present issue is built around work-rule changes in the contracts, the problem of managerial and union prerogatives stands out as the continued long-run problem. As one management spokesman said in 1948:

Union representatives are demanding, and succeeding inch by inch in obtaining the demand, that they exercise judgement before management can act . . . if the management representatives must talk to the union representatives before they can act or make a decision, then management has lost its management function. The function is then being discharged by the party with whom management must consult before acting and the party whose approval must be obtained. This is the drive that is being made.¹

Kaiser's settlement obviously pleased company stockholders, customers, and union employees. There is an indication that production will run smoothly for approximately two years. The key to the settlement hinges on the established management-union work-rules committee which has the power to resolve work-rule issues which arise. Should this committee prove workable, it could set a precedent as a means of successfully undoing knotty issues which are difficult to negotiate during bargaining sessions. Should the work-rules committee fail, it might indicate that in strategic industries such as steel, other methods, not so well accepted by the parties involved, would be introduced by the government or public pressure to resolve stalemated issues.

In a crucial time of rising costs and threats of a larger steel import market, Kaiser has agreed to let union representatives share in making decisions concerning the economic health of the company. Members of this committee will have a tremendous following in the days ahead with much significance attached to action they take. It is difficult to foresee union representatives pursuing any but a union policy and management representatives following anything but a predetermined management policy. However, the work-rules committee—because it is a smaller group, working under less time pressure, able to make more detailed studies—may function unexpectedly well. If so, the concept and practice of collective bargaining may emerge strengthened rather than weakened.

¹ N. W. Chamberlain, *The Union Challenge to Management Control* (New York: Harper, 1948), p. 3.

A. R. MARSHALL

It is reassuring to those who insist that collective bargaining is the best method of settling labor-management disputes that Kaiser (representing two per cent of steel capacity) and the union were able to come to an agreement following a strike that had lasted over a hundred days. However, at this writing no agreement has been reached by the union and the industry in general. Although it would be going too far to state that collective bargaining is on trial, the present steel crisis does raise many

questions regarding the part that the government should play in the present steel controversy and in future labor disputes. An additional question has to do with the responsibilities of a powerful union and a powerful industry when a strike seriously affecting the national economy is temporarily ended only by injunction.

Collective bargaining has been supplemented by other devices in an effort to settle the steel dispute. Mediation and conciliation have not been suc-

cessful; 116 days of striking followed by an injunction left the parties stalemated; and although a fact-finding board by narrowing and stating the issues has given the public a somewhat better understanding regarding the nature and extent of the differences between the union and the industry, this still has not resulted in a settlement. The remaining possibilities for settlement—fact-finding with recommendations (as utilized in the railway industry), seizure, and compulsory arbitration—should not be seriously considered until the total situation becomes much worse, and then only as a last resort.

Compulsory arbitration not only destroys the collective bargaining process but sets the stage for price as well as wage controls. Seizure would be effective as a threat, but its imposition would not insure a settlement; in addition, it represents extreme governmental interference not palatable to a democracy such as ours. Fact-finding with recommendations has worked out fairly well in the railway industry (a public utility), but the writer does not at this time recommend it as a means of settling the steel dispute. Since this method does not have all the dictatorship qualities noted above, it may have to be resorted to if other means finally fail. In this connection, however, it is worth noting that fact-finding with recommendations may be only a less stringent form of compulsory arbitration in its reliance on public opinion to force an agreement.

An ever-recurring proposal to prevent national emergency strikes, which the Congress is very unlikely to accept, is to prohibit industry-wide bargaining or otherwise cut the unions (or the companies) down to size. But the solution is not to stop the trend toward bigness of unions or of companies but to insure responsibility in the economic strength that is exercised. This poses the question of whether the parties have tried hard enough to reach an agreement in the present crisis.

At the time the strike began it was apparent that practically no progress toward an agreement had been made. Each party accused the other of refusal to bargain in good faith and of taking an adamant position. Perhaps both were correct in their allegations. The strike itself did not bring them closer together, but it did have a serious impact on the national economy, taking the form of decreased earnings to steel and other workers, elimination or reduction of profits in the steel and other industries, and curtailed taxes to government. It is reliably reported that even after the strike had lasted over a hundred days, a member of the fact-finding board found that each party had made its demands to the other party "non-negotiable," which, if true, is an indictment against strong and unyielding attitudes. Strong pressures to come to an agreement have unsuccessfully been brought on the parties by the President, by agencies of government, and by other interested and public-minded persons. Although at the time of this writing the issues have been narrowed and the framework for an agreement has

been developed, the conclusion must be reached that the parties have failed collectively to meet their full responsibilities to the public.

The fundamental issue that is now preventing agreement has to do with local working conditions. In the expired U. S. Steel agreement Section 2-B (and comparable clauses in most other contracts), which was first negotiated in 1947, it is provided that local working conditions will be continued except under specified conditions. The companies have contended that their operation obstructs the improvement of productive efficiency while the union has argued that this is not so. The companies have insisted upon a revision of the contract language, and the union has offered to set up a joint committee which will survey these problems and make recommendations. The industry leaders have charged that work rules have needlessly cost the companies money. The union has contended that featherbedding is entirely nonexistent in the steel industry, and also that it welcomes rather than resists technological change. Although both parties are in agreement that clauses providing for the continuance of local working conditions do not prevent changes "when the basis for the existence of the local working conditions is changed or eliminated," thus making way for technological changes, changes in equipment or manufacturing processes, the companies claim that there is serious hindrance where there has been no investment in new facilities.

The Kaiser agreement provides for a joint work-rules committee to study and make recommendations regarding local working conditions, as well as for a tripartite long-range committee which will look for a new formula for an automatic provision respecting wages and the cost of living. The work-rules committee will function until the expiration of the contract on July 1, 1961. The intention is that the long-range committee will be of a permanent nature but would be expected to make recommendations by July 1, 1960. Both parties profess confidence that each of these committees will be successful in meeting the desired objectives.

From the viewpoint of those who believe that collective bargaining should succeed in a democracy, it is very significant that Kaiser settled with the union. If an agreement could have been reached with the rest of the industry, although not necessarily on the same bases, this would have been a boon to the institution of collective bargaining. Kaiser's facilities are relatively new as compared with those of the rest of the industry, so possibly a somewhat different agreement would be fair and equitable. It should be emphasized though that Kaiser and the union did come to a settlement; and if the two committees can recommend mutually-satisfactory specific solutions, the stage will be set for improved labor-management relations that will be beneficial to the remaining steel companies and the union.

If the Kaiser work-rules committee fails to accomplish anything of a positive nature, it will be

due to the fact that the participants are unwilling to compromise their differences in the light of the need for efficient production and fair treatment of the employees affected by any changes that may be made. It would certainly be preferable for the differences regarding local working conditions to be decided by the parties who know their problems than by outsiders who could be called upon to make arbitration awards. There is a strong possibility that in agreeing to set up the work-rules committee the parties have in effect firmly determined that satisfactory solutions will be reached.

The long-range committee set up in the Kaiser settlement will have the talents of three of the most competent labor relations persons in the country. All of these men are experienced arbitrators and mediators and have undoubtedly accepted the committee assignments to help make collective bargaining work. The committee represents a constructive attempt to find a formula to be substituted for the wage and cost-of-living provisions of the new contract. The committee will seek to establish a "long-range plan for equitable sharing between the stockholders, the employees, and the public of the fruits of the company's progress."

The steel companies' suggestion that an arbitration board decide the work-rules issue within 60 days was refused by the union who termed the stipulation "loaded." The question proposed was: "What, if any, changes should be made in the local working conditions provisions to enable the companies to take reasonable steps to improve efficiency and eliminate waste with due regard to the welfare of the workers?" The companies' subsequent proposal to allow a joint committee to tackle the work-rules problem for 60 days, then to submit to arbitration if no agreement could be reached, was also rejected by the union. The union's proposal still stands that a joint committee appointed for the length of the contract should be able to work out the proper changes. These different proposals do not indicate that agreement is impossible or the differences between the parties irreconcilable. The conclusion is reached that there is some basis on which the work-rules issue can be fairly resolved by the parties and that successful negotiation is preferable to government intervention. Agreement can be arrived at through collective bargaining if there is a mutual acceptance of responsibilities to the public.

JAMES F. CRAWFORD

In the view of the writer the impact of the Kaiser settlement on the outcome of the steel dispute will be slight. At this date (mid-December, 1959) there is little evidence that the signing of a separate agreement between Kaiser and the United Steelworkers Union has had or will have any significant effect on the solidarity of the large steel companies or their resolve to stand firm on the issues. Nor has it appeared to produce any appreciable increase in public pressure on the industry to settle or to embrace the Kaiser formula. In the long run the more important consequences of this settlement may stem from the attention which it has focused on certain shortcomings in existing bargaining procedures and unresolved issues.

The Kaiser settlement has tended to emphasize the fact that no clear guidelines exist for the resolution of the issues involved in the distribution of productivity gains and the handling of problems of adjustment to rapid technological displacement of employees. Lacking bases for the settlement of these issues which were compatible with the internal and external pressures bearing on each party,

Kaiser and the U.S.W. agreed to defer final settlement of these issues by referring them to committees as a means of achieving an immediate agreement, which both appeared to urgently desire.

To understand the "why" of the Kaiser settlement it is necessary to examine the background of the steel controversy. What produced this serious breakdown in an established bargaining relationship? This impasse was the product of a number of developments, some of which extend back several years. The following are among the important causal factors.

1. The "2B" work-rule clause is probably the most important single specific issue in the dispute. This clause provides that a company cannot change any local working conditions (e. g., wages, hours, crew size) that have previously prevailed, either by contract or by custom, without the union's consent. However, where the basis of the custom has been changed (e. g., new equipment) management can change a local practice. Management insists upon elimination of or drastic changes in "2B" in the interest of efficiency and flexibility. The union

representatives regard these provisions as essential job-security guarantees and refuse to agree to their modification. President McDonald of the Steelworkers Union declined an industry offer to arbitrate this issue.

2. The relatively insecure union leadership is another important ingredient in the steel dispute. In his seven years as head of the United Steelworkers, David McDonald has failed to establish himself solidly as the unchallenged head of the union. His predecessor, Philip Murray, a beloved and highly respected leader, could and did draw on his tremendous influence with the rank and file in order to resolve difficult issues, even if it meant running counter to popular feeling. Because of his insecurity, McDonald cannot risk undertaking an action which lacks popular union support; nor apparently does he feel that he can afford to make any substantial concessions to the industry for fear of charges of "soft bargaining."

3. The 1956 settlement in steel was a generous one indeed. Its terms in most respects exceeded those in the 1955 auto agreement. Many thought a new era of good feeling was emerging in steel as Ben Fairless of USS and McDonald toured steel plants together in a remarkable demonstration of the mutual desire of top management and union officials to work together in harmony. However, during the 1957-58 recession McDonald refused to consider requests by steel company leaders that the union forego a scheduled wage increase, thus setting the stage for tougher industry bargaining in 1959. In addition, there were personnel changes in U. S. Steel which foreshadowed a firmer approach to the union.

4. Among other factors the changing climate of public opinion to unions was important. Since the disclosures of the McClelland committee, unions have found employer attitudes stiffening. In addition to the less sympathetic public attitude towards unions based on the revelations of corruption and racketeering, the identification of large union wage demands with inflation (which the President has persuasively described as our most urgent economic domestic problem) and a growing feeling that unions have become too powerful have given employers much popular support for their firmer bargaining attitude. The resolute approach of the steel companies has evoked an unusually large number of public statements of public support from other employers, including many steel users who stood to lose in the event of a strike-created steel shortage. The widespread expectation, a year in advance, of a strike in 1959 permitted steel users to accumulate substantial stock piles. This lessened the cost of a strike to the steel companies (as demand for steel would have fallen off had there been no strike) and encouraged the feeling in the industry that it had the preponderance of bargaining power on its side. It was felt that this was the year to insist upon desired contract modifications.

5. A further influence on the steel companies to take a strong position on cost reduction was the growing competition of foreign steel in domestic and foreign markets. Rising U.S. labor costs in steel and increased efficiency in steel production abroad have sharpened foreign steel competition.

These are some of the ingredients which produced the long steel strike of 1959. The separate agreement between Kaiser and the USW is in part related to the above factors and in part to conditions unique to that company.

First, Kaiser was less concerned with and less affected by the work-rule issue than were other companies. Kaiser, a young company, has largely modern facilities. Furthermore, it is less-hampered by the type of restrictive work rules which have developed in other firms through the years and, consequently, have become frozen into their agreements. Moreover, there is some indication that Kaiser was less opposed to the principle behind the "2B" work-rule clause than were most of the steel producers.

Secondly, Kaiser wanted to dispose of the steel negotiations before commencing bargaining with the USW over an aluminum contract. Kaiser had no desire to court the possibility of simultaneous stoppages in both these facilities.

Thirdly, it has been reported that Kaiser needed the current income from steel production to meet heavy debt obligations.

Fourthly, the agreed-upon settlement cost Kaiser less than it would have cost most of the other steel producers due to the fact that Kaiser presently has a medical foundation which underwrites the cost of many social benefits received by its employees. Such benefits, if offered by other firms, would have to be paid out of company funds.

Finally, and perhaps most importantly, Edgar Kaiser has indicated his strong distaste for having his employees return to work under the duress of a Taft-Hartley injunction. He feels that productivity would suffer and, furthermore, that Kaiser labor-management relations would operate under a cloud for years.

Thus, despite the strong disapproval of the major steel producers (with whom it must do business), Kaiser negotiated a separate agreement. It has been suggested above that the direct impact of this settlement on the final steel settlement probably would not be substantial and that its major significance might be to focus attention on important unresolved issues. These problems—work rules (especially as applied to the reassignment of technologically-displaced employees) and the distribution of productivity gains—severely challenge management and labor. There is no easy solution to the problem of technological displacement, especially when changes are rapid, the number of involved workers is large, and total employment in the industry is declining. Management stresses unencumbered management prerogatives as a prerequisite to maximum efficiency. Unions emphasize

protection for the workers from job or income loss due to technological change.

The steel industry work-rule controversy stems from disagreement on the rules governing changes in worker requirements. The larger issue seems to be *who* shall decide rather than *what* the decision shall be. The Kaiser settlement delegated this issue to a joint union-management committee for study while leaving in effect the "2B" provision. Should the steel industry settlement resolve this issue it seems likely that the Kaiser joint committee would consider the adoption of the same provision.

The problem of sharing future increases in productivity among the various claimants was given to a tripartite committee whose members were instructed to report by July, 1960. This action was newsworthy but hardly epochal. It did serve to underscore one of the bleak facts of industrial life today—in pursuing a "responsible" wage policy bargainers have no real guides to follow. In the major manufacturing industries which are typically characterized by (1) oligopoly, (2) relatively inelastic product demand, and (3) administered prices, the range within which wages may be set is often wide.

RODERICK F. O'CONNOR

In the case of the present steel dispute it is too late for truly corrective measures, but rather attention must be directed toward preventive solutions. There is hardly a more unfortunate example, on both sides, of labor-management relations than in the steel industry. We have the spectacle of two great powerful forces arraigned against each other, distrusting and hostile. For years it has been obvious that there has been no genuine negotiation. Instead, both sides have traditionally won—the union winning handsome pay increases and benefits, and management countering with substantial price increases. The only loser has been the rest of the country. The threat of low-priced foreign steel has now rendered this kind of solution obsolete. It has become distressingly clear that neither the big unions nor the big steel companies have been trying to propose any really new answers. Thus we have a power stalemate.

In regard to the Kaiser settlement the feeling among many people is that Kaiser has abdicated a precious management prerogative—the right to set work standards. The logic of this loss-of-prerogatives argument and the seriousness of the general

The Need: A National Wage Policy?

The Kaiser productivity committee approach suggests a method of attacking this problem on a broader scale. A tripartite annual White House Conference on wages might develop in broad outline an annual policy on wages as a guide to bargainers. This policy could be made to reflect existing general economic conditions and anticipated developments. It would be hoped that with such a policy public opinion would serve as an effective check on wage adjustments which departed significantly from the standard (i.e., a range) which unions and employers through their representatives had helped to develop.

This approach or some variant thereof may be worth considering. The present steel impasse might have been avoided had the parties been subjected to public pressure to conform to some established wage policy, or to justify any important deviations. Difficult labor-management problems remain to be solved within the next few years. It seems likely that new approaches must be fashioned if the voluntarism which characterizes present collective bargaining is to survive. Among the most urgent needs is to find means of encouraging settlements which are consistent with the broad public interest.

problem of work standards have served, I believe, to obscure the real issue—namely, the complete loss of trust and genuine communication between labor and management.

The Basic Management Prerogative

If a man is hired only for his working skills, how different it is from the concept that the **complete** man (with all his loyalties and desire to help) is being engaged. The achievement of work standards is always a cooperative affair, whether realized or not. If confronted with an assertion of management authority, the distrustful worker will find ways to counter the boss. It then becomes a game to see who can outmaneuver the other. The real management prerogative—and it is one you cannot command—is the right to the loyalty, the good will, and the confidence of the person being employed. Once that is gone it becomes a matter of enforcing demands, and that means a struggle for power.

Where there is a healthy management-labor relationship, the word "prerogative" almost never arises. In firms where it does come up time and

again, it is a symptom of something fundamentally wrong. It is like a situation in which a husband and wife begin to quarrel about the rights of each partner to the car, or how many nights a week out the husband is entitled to, or how much weekly allowance the wife has a right to spend as her own. When problems of this kind become the chief topics of communication, there is strong evidence of a sick marriage. Such a couple will one day end up in a divorce court arguing their rights before a judge. In a healthy marriage bitter arguments about who has a right to what seldom arise. In a similar vein, continued argument over prerogatives is evidence of sick management-labor relations.

The Kaiser settlement is a ray of hope because it breaks the deadlock of the power struggle in which big steel and big labor now find themselves. Edgar Kaiser, by consenting to the making of important decisions by committees which he cannot control, has admittedly laid himself open to the risk of abuse of such power. He has stated frankly that his decision was based on the belief that there is a reservoir of good will and decency among his union people. He believes that, by bringing them into management's problems, they will put a genuine desire to be of help ahead of shortsighted self-interests.

Regarding the present impasse between the big companies and the union, there is not much that can be suggested which would solve the issues in an equitable way, and I feel a great sympathy for a manager who finds himself in a nearly hopeless, standoff fight over the prerogatives issues. It is clear that in the years ahead the real job will be to re-establish the bonds of trust and communication between management and the individual worker. As companies become great in size they tend to lose sight of the individual and his welfare. This is a striking fact in the steel industry. However, there are some big firms in other fields which have worked hard at it and have been able to retain the loyalty of the individual working for them.

The Struggle for Power

The history of labor-management relations in steel is a record of power moves. With the rise of local unions, workingmen tried to offset the superior power of big employers. But this was difficult to achieve. So they formed national labor organizations which, indeed, were effective. By picking on one firm at a time—any one of them—the big union could get just about what it wanted. This led logically and inevitably to the decision by the steel companies that they too should bargain only as a single unit. The power implications of this are so threatening to the union that it now appears unwilling to bargain at all. Thus we find Mr. McDonald showing an intense desire to shift the bargaining back to an individual company-by-company basis.

Regardless of who started it or of who is more in the right in this power struggle, it is clear that everyone is going to lose through it. The experience in steel is in danger of repeating the sad tale of the once invincible railroads. In the rails we see the end product of long, continued strife over prerogatives while competitive industries take over a larger and larger share of the business. The rails have lost business despite their inherent cost advantages.

When both management and labor come to the realization that this is a struggle in which there can only be losers, perhaps then they will turn to the only solution which is possible—a solution which lies in the reawakening of faith in the potential good will and decency of the other side. While there may have been some selfish motives at work on the part of both management and labor in shaping the terms of the Kaiser settlement, let us hope that both sides are willing to approach the committee arrangements in a new spirit of trust and cooperation. If they come together in the right spirit it might well prove to be a most significant development in management-labor relations in the steel industry.

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THE SOUTHEASTERN CORNER

by
Warren A. Walker



ALABAMA SURVEYS PLANT LOCATION FACTORS

This is the second of a series of articles dealing with various aspects of the economic base of Alabama. In the first of these articles it was determined that, although Alabama has a broadly diversified economic base, it tends to have a disproportionate quantity of low pay, low value-added type of industries. In this article we shall examine one of the projects undertaken in an effort to modify this distribution.

Obviously, before steps can be taken to alter a distribution, the causes of the present distribution must be determined. The Alabama Business Research Council, acting in conjunction with the School of Commerce and Business Administration of the University of Alabama, published such a study in 1957. The title of this study is *Alabama Goes Industry Hunting*; essentially it is a study into the reasons for industry location.

As a working base for the study, it was determined that there were as many as twenty-four significant factors involved in problems of industry location, and even this rather extensive tabulation involved a number of subheadings. On closer examination it was ascertained that there were probably five factors of greater importance than the others, and these were tabulated in what seemed to be their order of importance:

1. Labor supply
2. Markets for product or service
3. Supply of raw materials (or suppliers thereof)
4. Availability of utilities
5. Transportation facilities

5. Transportation facilities

These factors formed the core of the interview-type of questionnaire that was finally used for the survey.

SELECTION OF A SAMPLE

One of the most difficult problems in this type of survey is the selection of material from which the survey sample is to be drawn. The sample must be confined to those companies that are in a position to answer realistically the questions involved. In the opinion of the writer a great deal of thought must have gone into the selection of the criteria used by the Alabama group.

First of all, eliminated from consideration were all companies that had located in Alabama more than ten years previously. This served two purposes. It eliminated from consideration: (a) all those companies that had located in Alabama when the economy was more agricultural in nature and (b) those companies whose location decisions were determined by wartime conditions or Federal influence.

Second, those manufacturing plants that normally employed less than one hundred persons were excluded. This was desirable, because very small manufacturers tend to be more influenced by random factors than by any long-range comprehensive plan.

Third, excluded were all operations that were obviously of a localized nature, either in regard to distribution or ownership.

These procedures reduced the potential sample

to approximately one hundred, and the actual final sample to thirty-two.

A number of the executives interviewed during this survey indicated the specific type of information they like to have when deciding on a plant location. The most frequently mentioned answer was "factual data pertaining to actual costs of production and distribution." Another type of information frequently mentioned was "the availability of suitable labor not embroiled in labor problems." (This question of labor supply will be considered in greater detail in next month's article.)

HOW INDUSTRY RATED LOCATION FACTORS

Of the thirty-two firms surveyed, as a factor of location *raw materials* received more first place answers than any other factor, followed rather closely by *market* and *labor*. Of course these figures are subject to a certain amount of interpretation due to the fact that not every company answered every question; but even under various interpretations there remains no doubt that these three factors are the top three.

As an example of what is meant by interpretation we may consider the following: In this particular survey, *plant location* (i.e. available sites) was mentioned more times than was any other factor. On the other hand, its position would be sixth when considered on the basis of the number of times it was listed as the factor of first importance.

As another example, *tax structure* was one of the factors most often mentioned, but typically it was listed in fourth place or lower, with fifth place being the mode of the series. This would seem to confirm the conclusion expressed in an earlier article that tax structure is a significant but not a decisive factor in the location of industry.¹

Incidentally, in using the terminology above the writer is reminded that a specific comment was made relative to the words "important" and "decisive." The point was made that the *important* factors are normally thought of as those placed near the top of the list. But, when the final choice involves several locations, all of which have adequate provision for the important factors, then these lesser factors may take on *decisive* characteristics.

OTHER ASPECTS CONSIDERED

Several other factors that influence executive decisions in relation to the selection of industrial locations were analyzed. One such factor was a legislative bill passed in Alabama in 1951, commonly referred to as the Wallace Act. In essence, this bill authorized Alabama counties to issue revenue bonds

to raise funds for industrial building construction—the rent on such buildings to be set sufficiently high to provide both the interest payments and the amortization of principal on such bonds.

Another factor that was considered was that of *tax concessions*. Tax concessions can take either of two forms: an outright exemption, or a low evaluation of the property for tax purposes. A special Alabama law provides that under certain conditions new industry can be totally exempt from city, county, and state property taxes for a period not to exceed ten years. In the experience of the writer, well-capitalized corporations do not seek such sweeping concessions. Given the choice, they prefer to establish a reputation that they are substantial citizens of the state and the community, rather than accept a temporary tax advantage.

The question as to whether it is desirable to give a tax advantage through the device of lower evaluation presents a slightly different problem. Characteristically a new plant does not reach a really efficient level of production for quite some time. There are a number of reasons for this, such as the necessity of training personnel, some experimentation with internal work flow, and other related matters. In view of this, it would seem to the writer that some limited degree of tax concession might be in order. It is not unreasonable that the residents of an area, making the transition from agriculture to industry, should suffer some temporary disadvantage in exchange for the long-term benefits.

On the other hand, this procedure is not without its abuses. Such concessions have a tendency to become rather permanent in nature, especially if the agreement with the local officials is of an informal type. Indeed, there have been all too many instances in the southeastern states of plant location being predicated upon the assurance of local officials that every effort would be made to prevent the valuation from *ever* being changed. Such practices are obviously contrary to the best interests of the public at large.

CONCLUSIONS

What conclusions can be drawn from a survey of this type? First, any state that seeks industrial development should have a complete inventory of all its resources. This is not a new idea, but it is an important one.

Another conclusion is that the data collected on the state should be in such form that it can be determined which sections of the state share similar or complementary resources suitable for industrial development.

Finally, for every area of the state there should be compiled accurate, detailed, topographic maps, so that the suitability of plant sites can be adequately visualized.

¹ See "The Southeastern Corner," *Atlanta Economic Review*, July 1959.

NOVEMBER, 1959

ATLANTA AREA ECONOMIC INDICATORS

Item	November 1959	October 1959	% Change	November 1958	% Change	% Change Eleven Months '59 over Eleven Months '58
EMPLOYMENT						
Job Insurance (Unemployment) Payments-----	\$614,920	\$270,363	+127.4	\$398,015	+54.5	-40.4
Job Insurance Claimants†-----	9,179	4,998	+83.7	7,265	+26.3	-38.9*
Total Non-Ag. Employment-----	355,700	360,600r	-1.4	348,500r	+2.0	+3.8*
Manufacturing Employment-----	81,100	86,700r	-6.5	84,050r	-3.5	+4.6*
Average Weekly Earnings, Factory Workers-----	\$77.42	\$83.82r	-7.6	\$81.58r	-5.1	+6.6*
Average Weekly Hours, Factory Workers-----	39.7	40.3r	-1.4	41.2	-3.6	+1.4*
Index of Help Wanted Ads (Seasonally adjusted, 1947-49 Avg. = 100)-----	169.1	171.6	-1.5	133.9	+26.3	+41.3
CONSTRUCTION						
Number of Building Permits§-----	590	589	+0.1	664	-36.7	-11.1
Value of Building Permits§-----	\$10,327,777	\$4,280,356	+141.3	\$11,519,684	-70.5	-10.4
Employees-----	23,500	24,250r	-3.1	22,750r	+3.3	+13.4*
FINANCIAL▲						
Bank Debits (Millions)-----	\$1,899.6	\$2,080.1	-8.7	\$1,663.3r	+14.2	+13.9
Bank Deposits (Millions)-----	\$1,280.1	\$1,263.4	+1.3	\$1,229.3	+4.1	+6.8**
OTHER						
Department Store Sales Index (Adjusted 1947-49 = 100)-----	187	178r	+5.0	172r	+8.7	+16.7¶
Retail Food Price Index-----	114.3	115.3	-0.9	116.5	-1.9	-10.9
Number Telephones in Service ---	357,343	354,775	+0.7	321,033	+11.3	+8.4**

r—Revised *Average month **End of period †—Based on retail dollar amounts
 §City of Atlanta only. N. A.—Not Available ▲Data from members of the Federal Reserve System only.
 ‡New series. Covers unemployed federal employees and unemployed veterans in addition to those covered by Georgia law. Claimants include both the unemployed and those with job attachments, but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

ATLANTA BUSINESS ACTIVITY

By mid-November the delayed effect of the steel strike finally reached the Atlanta area. The best indication of its impact is seen in JOB INSURANCE CLAIMANTS which increased 83.7 per cent over October, reaching a record high of 9,179 for the year. The only time this figure has been exceeded was during the recession months of 1958. JOB INSURANCE PAYMENTS were also at their highest point (\$614,920) since September of 1958.

NONAGRICULTURAL EMPLOYMENT took its first setback in nine months, dropping off 1.4 per cent from October's all time high of 360,600. Most of the loss occurred in autos and allied equipment (5,500), with other declines being shown in transportation, communications, electric, gas, and sanitary services (900). About 200 were lost in apparel and other finished textile products.

Along with these losses, substantial gains were made in retail trade (2,150) as a result of increased Christmas staffs. Government gained about 100, mostly in the post offices to handle the seasonal influx of mail. Meat products gained 200 while textile mill products gained 150. The net loss in employment was 4,900. It is interesting to note that despite the strike slump in November, NONAGRICULTURAL EMPLOYMENT was still 2 per cent higher than November of 1958, which attests to Atlanta's rapid growth the past year.

Despite these November setbacks, Atlanta's 1959 record should show substantial improvement over 1958. Based on eleven month comparisons between the two years, JOB INSURANCE PAYMENTS are 40 per cent lower than last year, JOB INSURANCE CLAIMANTS are down almost as much, and NON-AGRICULTURAL EMPLOYMENT is up 4 per cent over 1958.

FACTORY EARNINGS were 6.6 per cent higher than 1958 and FACTORY WORKING HOURS were

up 1.4 per cent. HELP WANTED ADS, a good indicator of the demand for labor, were 41.3 per cent greater in 1959. BANK DEBITS, a fairly accurate picture of spending, were nearly 14 per cent greater in 1959, and BANK DEPOSITS, an indicator of the money supply, were up 6.8 per cent.

Along with this increased economic activity, prices have held reasonably steady. In fact, the retail food price index was down almost 11 per cent over 1958.

Industrial Developments

The Georgia State Chamber of Commerce reports several new manufacturing plants in the Atlanta area since September: The Lovable Brassiere Company has moved into its new million dollar apparel plant; Fabro of Georgia, Inc., is erecting a 17,000 square foot dog food plant; Jack Smith Asphalt Company has completed its new \$100,000 plant; American Home Products Corporation is constructing a \$300,000 warehouse; Pennsalt Chemical Corporation has announced a \$500,000 production and warehouse facility; Zep Manufacturing Corporation has completed a new \$1,300,000 plant; Walker Die, Tool and Engraving Company has moved into its new \$200,000 plant; The Browning Company has invested \$100,000 in a metal products plant; Knight Manufacturing Company will produce boats in a new \$75,000 facility; American Finishing Company has opened its \$100,000 paper specialties plant. The American Can Company has completed construction on its multimillion dollar can manufacturing plant, with approximately 150 employees; and in Marietta, Glasrock Products, Inc. has a 20,000 square foot fabricating plant under construction, which will initially employ 100.

J.R.O.

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